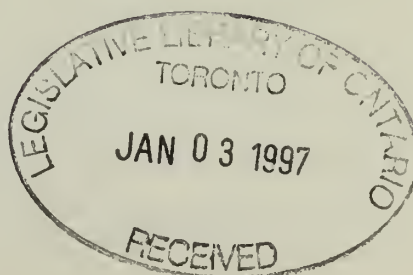


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INTERIM REPORT
of
SELECT COMMITTEE
on
CONSUMER CREDIT

March, 1964

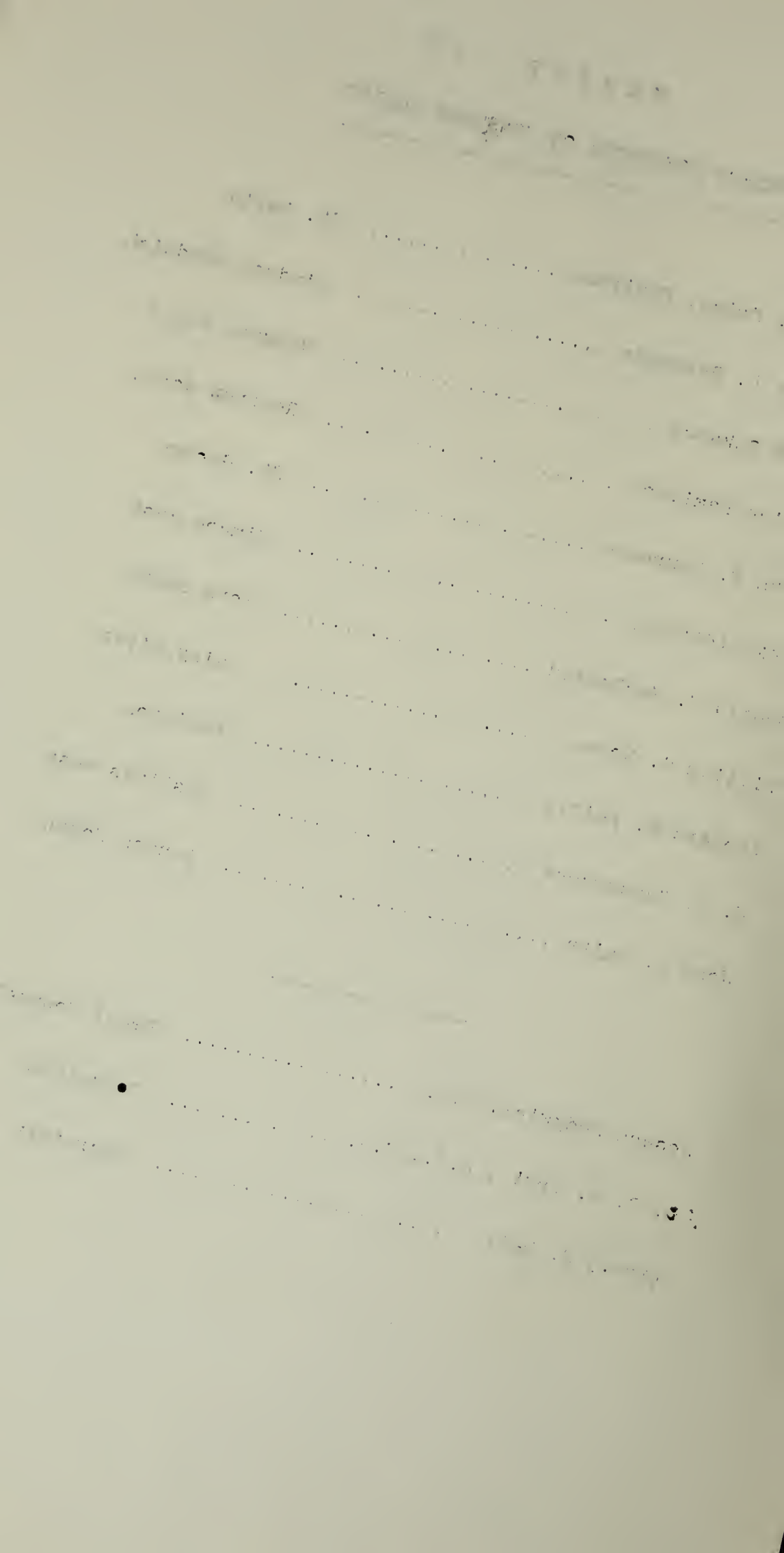


M E M B E R S O F

SELECT COMMITTEE ON CONSUMER CREDIT

Henry J. Price, Chairman	St. David
Maurice L. Belanger	Windsor-Sandwich
George Bukator	Niagara Falls
Maurice Hamilton	Renfrew North
Allan F. Lawrence	St. George
Lloyd Letherby	Simcoe East
Donald C. MacDonald	York South
William G. Noden	Rainy River
Leonard M. Reilly	Eglinton
W. E. Sandercock	Hastings West
John H. White	London South

Joseph Sedgwick, Q.C.	Legal Counsel
D. D. W. Irwin, B.A., C.A.	Consultant
(Mrs.) S. Dell	Secretary



Honourable Members:

Public attitudes toward the use of credit and indebtedness have been undergoing a progressive modification with the changing conditions of our society. A few decades ago, money was not so essential a consideration in obtaining the goods and services which constituted the necessities of life. However, with our remarkable advance in science and technology and the improved living standards which followed, things have changed and credit has become an accepted and integral part of our economic structure. This development was epitomized in the words of the British Committee on the Working of the Monetary System - "just as a mortgage is the normal method of borrowing for the purchase of a house, so hire-purchase has become the main source of credit for equipping it." But the widespread use of credit has produced concomitantly manifold difficulties and problems. Thus, the worthy injunctions of "caveat emptor" and "the buyer needs a hundred eyes" are of small avail against the complexities which now confront the average individual in the world of commerce and consumer credit.

Notwithstanding the fact that many consumers are just beginning, or learning, to use the many forms of credit available, the total retail credit outstanding at the end of 1963 was in excess of 5 billion dollars. In recognizing the extent to which credit is used, it should be pointed out that the ability to obtain credit is a sound and valuable benefit, when credit is used properly. Economic advancement has gone hand in hand with the expansion of credit and the consequences on our economy are readily apparent in the high levels of industrial production and employment together with higher standards of living.

On the other hand, the excessive and unwise use of credit, along with the inability of individuals to meet

financial commitments, is a matter of concern to everyone, including the selling and lending agencies themselves. While it is a distressing fact that credit privileges are not always used with care and certain individuals suffer financial hardship because of over-spending, ignorance or misunderstanding and, to this extent, the difficulties may be self-incurred, it is nonetheless clear that the consumer has, at times, been the victim of misleading and deceptive practices.

In our present-day environment, money is not unlike a commodity in that the use of it is bought and sold. Advertisements proclaim this fact abundantly through radio, television and news media. "If you need \$2,000. or more ... then do as thousands have done, call me"; "dial a loan"; "they're quick with the cash"; "the difference between hoping and having is a loan from"; "this \$1,600. cheque is yours"; "no payments till March (advertisement dated December)": all lead to the belief that borrowing or purchasing on credit terms is an easy matter. Credit on this continent has become so easily obtainable that the public feels it belongs to them as a right.

The "buy now - pay later" philosophy which evolved during the past 15 years and which has, in fact, been thrust at the public, appears to have displaced the earlier concept of "saving before buying" which was the Golden Rule of the previous generation. Money is of major importance in our modern society and we must learn to use it to its fullest advantage. Therefore, education and encouragement of the old-fashioned standards of thrift, sound management and personal responsibility are not inconsistent with consumer interest - and the interests of the consumer are of essential and paramount concern to this Committee.

It will be seen that there is no easy route or simple

solution to the problems which have become increasingly manifest. Thus, the whole aspect of credit must be surveyed with a view to meeting the needs of our changing and complex system.

APPOINTMENT AND
TERMS OF REFERENCE

The Committee was appointed on April 26th, 1963, by the Honourable John P. Robarts, Q.C., LL.D., Prime Minister of Ontario, with the following terms of reference:

"to examine into, study and report on all matters relating to the actual cost of credit to consumers such as instalment purchasers, borrowers and mortgagors in the Province of Ontario, and without limiting the generality of the foregoing the Committee's attention is particularly directed to investigation of means by which total charges for borrowing money may be revealed in regard to land mortgages, chattel mortgages, conditional sales agreements, credit retail purchases and similar transactions."

and was reconstituted on October 30th, 1963.

Soon after the appointment, an advertisement was inserted in newspapers throughout the Province and letters were circulated inviting the presentation of briefs from chartered banks, insurance companies, acceptance corporations, finance companies, departmental stores and other retail and financial establishments, credit unions, mortgage brokers, solicitors and other extending credit to consumers. In addition, submissions from individual consumers and consumer groups were invited.

The Committee sat for 16 days during June, July, August,

November and December, 1963, and heard from a total of 80 groups and individuals.

A vast amount of background material and information has been collected from public service departments of the federal and provincial governments, mortgage brokers, lawyers, banks, trust companies, finance companies, acceptance companies, agriculture and labour associations, automobile dealer associations (both new and used car), a collection agency and various trade associations, business and consumer groups.

Submissions were, for the most part, thoughtful and ably presented and the time and effort expended in their research and preparation is gratefully acknowledged. We wish to extend our most appreciative thanks to all those who have given us the benefit of their knowledge and experience.

Important sectors of the consumer credit industry have yet to be heard and there are many aspects which need to be scrutinized more thoroughly. Consequently, the Committee is not prepared to make specific recommendations at this stage of its enquiry.

Our first observation, nevertheless, concerns the misconception or lack of information about the true cost of credit. It was repeatedly reiterated that consumers had little idea of what they were paying in interest and carrying charges. The main objective and implicit responsibility of this Committee is to find means of making sure the public KNOWS how much is being paid for borrowed money and to eliminate confusion and misrepresentation respecting consumer credit. This view was also expressed by the Royal Commission on Canada's Economic Progress which stated in its report that "The insensitivity of consumer borrowers to the cost of funds

may be impossible to overcome - but we should at least take steps to ensure that individuals are informed of the rates of interest they are required to pay and informed in such a way that they may easily, without using slide rules, compare the rate charged at one source with the rate charged at others."

Furthermore, while the necessity and use of advertising is not in question, the intensive advertising programmes directed at the consumer have been (and continue to be) a contributing factor in the imprudent use of credit. The tendency in advertising appears increasingly to be towards consumer "borrowing" to achieve objectives rather than "saving", and it may be that some limitation or restraint with regard to advertising practices is desirable.

Other countries have indicated concern about consumer credit. The subject is being studied in the United States, Great Britain and other jurisdictions of Canada where it is receiving the attention of a Nova Scotia Royal Commission, a committee in Manitoba, and a recently appointed Joint Committee of the Senate and House of Commons.

REASONS FOR BORROWING

The most common purposes cited for seeking loans are:-

- Renewal or refinancing of mortgages
 - Purchase of an automobile or other consumer goods
 - Home improvements
 - Consolidating debts
 - Vacations
 - Education
 - Emergencies and illness
- (And the underlying reason in most cases, it was advanced, was "keeping up with the Joneses")

Then, taking credit purchases in order of importance, a house is the most significant and an automobile the next in line. It was estimated that 99% of all homes are mortgaged initially and that possibly 75% of the homes have a second mortgage when bought. Probably 85% - 90% of total car purchases are financed at one stage or another but this figure is necessarily speculative to the degree that many transactions which appear to be for cash may have been financed through bank, finance company or credit union loans and there is no statistical control representing all automotive financing.

SOURCES OF CREDIT

The institutions specializing in providing financial services to consumers may be classified as follows:-

Retail stores (with an assortment of credit plans)

Banks

Trust companies

Small loan (or consumer finance companies), and
licensed money lenders

Credit unions

Acceptance companies

Mortgage brokers (this includes firms, private
individuals and estates)

Insurance companies

CHARGE, OR INTEREST, ON CREDIT

In simplest terms, interest is payment for the use of money and, when expressed in terms of a percentage, is referred to as an interest rate.

A variety of calculation methods is used by lenders and retailers on the different types of loans, both secured and unsecured, and on the different types of retail credit

transactions such as instalment purchases, charge accounts, revolving credit accounts, etc. The interest or finance charge may be expressed as an annual or other than annual percentage rate and may be computed by an add-on or discount method; it may be calculated on the declining balance or on the unpaid balance outstanding at the end of each month (revolving credit); it may be stated as a dollar amount and sometimes only the amount and number of payments may be given. Moreover, the interest rate can be supplemented by other costs such as service charges, commission, brokerage fees, legal fees, appraisal fees, etc.

Interest is a federal matter and the only legislation at present requiring disclosure of interest is the Small Loans Act which regulates the interest on loans up to \$1,500. and the Interest Act which specifies that the simple interest rate must be clearly set out on blended payment mortgages.

The Bank Act purports to govern loans from banks.

Under the provisions of the Ontario Mortgage Brokers Registration Act, 1960, the Statement of Mortgage Form provides for full disclosure of all the details of a mortgage transaction.

Rates of interest in Canada are comparatively low in relation to rates in many other countries. Generally speaking, the cost of consumer borrowing in Ontario, including interest and other charges and expressed as a percentage rate per annum, are at the following prevailing levels:-

Credit Unions	8% - 12%
Bank loans	6% - 11.4%
* Finance companies	6% - 24%
Instalment purchases	16% - 20%
Conventional first mortgages (Central Mortgage & Housing, trust & insurance companies)	6 $\frac{1}{4}$ % - 8%
Second mortgages	9% - 35%

*Most of the loans in this category are under \$1,000. since it was allegedly not practical to lend at the $\frac{1}{2}$ % per month rate established by the Small Loans Act for the \$1,000. to \$1,500. class.

Nevertheless, some astonishing rates of interest on mortgage and other loans were uncovered during the course of the hearings - rates of 37%, 45% and more and, in one extreme case, 87%.

Action under the limited powers of the Committee being impracticable, an investigation of the reportedly exorbitant rates of interest charged by some mortgage brokers was opened by the Honourable F. M. Cass, Q.C., Attorney-General for Ontario. In consequence, the registrations of two of the mortgage brokers in question have been cancelled. Other abusive practices in the second mortgage field which were raised during the hearings are still under investigation and receiving the closest scrutiny of the Department.

In our estimation, the normal forces of competition will tend to mitigate and, in due process, to remedy many of the abuses in the lending field - specifically the second and subordinate mortgage areas. Likewise - and this will lend credence to our belief, the entry into the field (since the Committee was constituted) of a number of large finance

companies, banks and other organizations of good financial and professional repute is helping to bridge the gap between first and second mortgage equity limits. Thus, it is now possible for property owners to borrow up to 85% of evaluation at rational rates, without bonus, and only nominal arranging fees.

It is believed, furthermore, that the publicity which attended Committee hearings has alerted the public to the practices of the unscrupulous fringe element and, as a consequence, those contemplating borrowing may now exercise more care when considering the relative merits of lending agencies, their rates and terms.

Another circumstance which has been a recurrent source of trouble is the widely-held misconception between the use of the words "term or maturity" and "amortization". Amortization refers to the number of years over which payments must be made before a loan is paid off in full. The term of the loan or date to maturity, in many instances, is substantially shorter than the time indicated by the amortization period. The borrower may thus believe that the loan will be repaid in full based on the schedule of payments required but, in fact, may find that a substantial balance remains unpaid at the date of maturity. This balance is frequently referred to as the "balloon" payment and, if the loan does not provide for renewal, the borrower may, in some cases, then be forced into a more exacting arrangement to meet the balance due. However, the Committee is not prepared at this time to recommend any steps which might be taken to alleviate this hardship since it is felt that the problem needs further consideration.

Apart from this, the Committee has had the added advantage of consultations with Mr. C. Richards, F.C.A.,

Superintendent of Insurance, and Mr. V. J. Simone, Registrar of Collection Agencies, who are responsible for the supervision and administration of the Mortgage Brokers Registration Act. In order to strengthen the position of Insurance Department officials and thus afford a greater measure of protection to the borrowing public, certain amendments to the Mortgage Brokers Registration Act have been drafted. Specifically, it is proposed that adequate penalties be provided for breaches of the Act or for failure to comply with the directions or rulings of the Registrar; that the period of limitation from prosecution be extended from 6 months to one year after the facts are known (bringing this in line with the Securities Act); that where an investigation reveals an offence under the Act or the Criminal Code a report be made to the Attorney-General; - together with some minor amendments designed to make the Act a more effective instrument. These amendments are endorsed by the Committee and we refer them to the attention of the present Legislature with a view to their early implementation.

Pending developments and any future recommendations which may ensue from the Attorney-General's investigation, the Committee advances the view that steps toward more control and inspection insofar as mortgage transactions are concerned would be desirable. The Statement of Mortgage Form as presently constituted under the regulations of the Act is lacking in a number of respects. It is submitted that, without changing the requirements of the Form, it provide for declaration of the approximately "true rate of interest" in place of the "minimum rate of interest" as now called for. Secondly, it is suggested that the question of compulsory filing of a copy of the Statement of Mortgage Form by the lender with an appropriate government

agency and with accompanying measures to ensure compliance be considered and examined fully.

USED CAR FINANCING

We have heard evidence which suggests that there are palpable abuses in the financing of used cars and, on the recommendation of the Committee, the Attorney-General has opened an investigation into the charges and some of the specific cases which were brought to the attention of the Committee. The Committee would like to express the view that licensing of used car dealers be required as the practice in effect at the moment is merely registration. The licensing authority should also require, as a condition of granting a licence, evidence of financial stability and good reputation and should make the continuance of the licence dependent on proper conduct of business.

DISCLOSURE OF THE TRUE COST OF CREDIT

The subject of disclosure, it will readily be seen, has been an issue of great public interest and has inspired much controversy. For a number of successive years, there have been disclosure bills introduced in both the Senate and the House of Commons. There has also been some disclosure legislation in a number of the States and in Great Britain.

Of the two basic methods of stating finance charges - the rate percent and the dollar and cents amount - the dollar form appears to be the method most frequently used in current practice.

Without having reached any specific conclusion, it may be added that the preponderance of opinion before the Committee has been in favour of full disclosure in principle and there would appear to be no opposition to the enactment

of compulsory disclosure legislation providing it appliesequally to all lenders.

From an administrative point of view, however, there have been cogent representations against declaration of the cost in terms of a rate percent on the grounds that the difficulty and complexity of calculating interest in terms of a comprehensible and exact percentage for all types of transactions is virtually impossible. Notwithstanding, the Committee is exploring every possibility in order that it may come to a practical and reasonable conclusion.

RE-APPOINTMENT OF THE COMMITTEE

It will be clear from the foregoing that our investigation is far from being complete. There are many areas which have not been approached and many facets which need to be examined more fully and it is therefore requested that the Committee be re-appointed to continue its enquiry.

Should the Committee be re-appointed, we propose to investigate many other aspects of the subject and areas not previously covered such as insurance companies, retailers, revolving credit accounts, instalment transactions, conditional sales and, in particular, the questionable situation of door-to-door selling.

H. J. Price, Chairman

Maurice L. Belanger

Donald C. MacDonald

George Bukator

William G. Noden

Maurice Hamilton

Leonard M. Reilly

Allan F. Lawrence

W. E. Sandercock

Lloyd Letherby

John H. White

Please sign original copy held by
Mr. Price

